



**AUDITED ANNUAL CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

### To the Shareholders of Urbanfund Corp.

The accompanying consolidated financial statements of Urbanfund Corp. (the Company or Urbanfund) are the responsibility of management and have been approved by the Board of Directors of the Company.

The annual consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with International Financial Reporting Standards, as disclosed in the notes to the consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the consolidated balance sheets date. In the opinion of management, the consolidated financial statements have been prepared with acceptable limits of materiality and are in accordance with International Financial Reporting Standards.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with the established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

RSM Canada LLP independent auditors appointed by the shareholders of Urbanfund, upon recommendation of the Board of Directors, have examined the 2018 and 2017 annual consolidated financial statements and have expressed their opinion upon the completion of such examination in the following report to the shareholders. The auditors have full and free access to, and meet at least quarterly with, the Audit Committee to discuss their audits and related matters.

*Mitchell Cohen*  
President, Chief Executive Officer and Director

*Thomas Kofman*  
Director

Toronto, Ontario  
April 23, 2019

## **INDEPENDENT AUDITOR'S REPORT**

### **To the Shareholders of Urbanfund Corp.**

#### *Opinion*

We have audited the consolidated financial statements of Urbanfund Corp., (the Group), which comprise the consolidated balance sheet as at December 31, 2018 and December 31, 2017 and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2018 and December 31, 2017 in accordance with International Financial Reporting Standards.

#### *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Other Information*

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the Management Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### *Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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## INDEPENDENT AUDITOR'S REPORT (CONT'D)

### *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Octavio Cabral.

*RSM Canada LLP*

Chartered Professional Accountants  
Licensed Public Accountants  
April 23, 2019  
Toronto, Ontario

# URBANFUND CORP. CONSOLIDATED BALANCE SHEETS

(In Canadian dollars)

| As at  | Note | December 31, 2018    | December 31, 2017    |
|--|------|----------------------|----------------------|
| <b>Assets</b>                                    |      |                      |                      |
| Investment properties                            | 5    | \$ 57,899,678        | \$ 61,427,685        |
| Equity accounted investment                      | 6    | 7,712,410            | 7,679,397            |
| Inventory properties                             | 8    | 2,841,320            | 2,474,335            |
| Assets held for sale                             | 4    | -                    | 3,556,220            |
| Marketable securities                            | 9    | 445,060              | 446,825              |
| Income taxes recoverable                         | 14   | 272,915              | -                    |
| Receivables and other assets                     | 10   | 903,484              | 745,380              |
| Cash   |      | 9,184,553            | 8,002,475            |
| <b>Total assets</b>                              |      | <b>\$ 79,259,420</b> | <b>\$ 84,332,317</b> |
| <b>Liabilities</b>                               |      |                      |                      |
| Mortgages payable                                | 13   | \$ 28,238,845        | \$ 34,528,600        |
| Deferred tax liabilities                         | 14   | 5,196,000            | 4,910,000            |
| Tenant deposits                                  |      | 149,350              | 181,678              |
| Liabilities associated with assets held for sale | 4    | -                    | 1,836,652            |
| Income taxes payable                             | 14   | -                    | 1,556,520            |
| Accounts payable and accrued liabilities         |      | 745,087              | 689,291              |
| <b>Total liabilities</b>                         |      | <b>34,329,282</b>    | <b>43,702,741</b>    |
| <b>Equity</b>                                    |      |                      |                      |
| Common shares                                    | 15   | 10,773,071           | 10,291,325           |
| Preferred shares                                 | 15   | 1,113,750            | 1,113,750            |
| Retained earnings                                |      | 31,752,422           | 27,759,099           |
| <b>Total shareholders' equity</b>                |      | <b>43,639,243</b>    | <b>39,164,174</b>    |
| <b>Non-controlling interests</b>                 |      | <b>1,290,895</b>     | <b>1,465,402</b>     |
| <b>Total equity</b>                              |      | <b>44,930,138</b>    | <b>40,629,576</b>    |
| <b>Total liabilities and equity</b>              |      | <b>\$ 79,259,420</b> | <b>\$ 84,332,317</b> |
| Contingencies and commitments                    | 26   |                      |                      |
| Events after the balance sheet date              | 27   |                      |                      |

Approved by the Board of Directors:

Mitchell Cohen  
Director

Thomas Kofman  
Director

The accompanying notes are an integral part of the consolidated financial statements.

**URBANFUND CORP.**  
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

(In Canadian dollars, except per unit amounts)

| Years ended December 31,                                  | Note | 2018                | 2017                |
|---|------|---------------------|---------------------|
| <b>Revenues</b>   |      |                     |                     |
| Rental revenue  | 18   | \$ 5,320,151        | \$ 5,506,270        |
| Inventory property sales                                  | 18   | 5,138,363           | -                   |
|   |      | <b>10,458,514</b>   | <b>5,506,270</b>    |
| <b>Operating costs</b>                                    |      |                     |                     |
| Rental expenses   |      | 2,480,149           | 2,931,412           |
| Inventory property cost of sales                          | 5, 8 | 4,156,937           | -                   |
|   |      | <b>6,637,086</b>    | <b>2,931,412</b>    |
| <b>Operating income</b>                                   |      |                     |                     |
|   |      | <b>3,821,428</b>    | <b>2,574,858</b>    |
| <b>Other income</b>                                       |      |                     |                     |
| Profit from investment in real estate project             | 7    | 800,000             | 3,666,667           |
| Income from equity accounted investment                   | 6    | 233,013             | 109,417             |
| Interest income   |      | 117,744             | 99,415              |
| Fair value adjustment on marketable securities            |      | 32,925              | 118,611             |
| Fair value adjustment on investment properties            | 5    | 2,073,414           | 5,673,753           |
|   |      | <b>3,257,096</b>    | <b>9,667,863</b>    |
| <b>Other expenses</b>                                     |      |                     |                     |
| Financing costs   |      | 1,123,960           | 991,561             |
| General and administrative costs                          |      | 491,855             | 406,403             |
|   |      | <b>1,615,815</b>    | <b>1,397,964</b>    |
| <b>Income before taxes</b>                                |      |                     |                     |
|   |      | <b>5,462,709</b>    | <b>10,844,757</b>   |
| Current income tax expense                                | 14   | 488,000             | 1,556,000           |
| Deferred income tax expense                               | 14   | 286,000             | 1,944,000           |
|   |      | <b>774,000</b>      | <b>3,500,000</b>    |
| <b>Net income and comprehensive income</b>                |      |                     |                     |
|   |      | <b>\$ 4,688,709</b> | <b>\$ 7,344,757</b> |
| <b>Net income attributable to:</b>                        |      |                     |                     |
| Shareholders  |      | \$ 4,863,216        | \$ 7,257,374        |
| Non-controlling interests                                 | 12   | (174,507)           | 87,383              |
|   |      | <b>\$ 4,688,709</b> | <b>\$ 7,344,757</b> |
| <b>Net income per share attributable to shareholders:</b> |      |                     |                     |
| Basic income per share                                    | 15   | \$ 0.11             | \$ 0.16             |
| Diluted income per share                                  | 15   | \$ 0.09             | \$ 0.14             |

The accompanying notes are an integral part of the consolidated financial statements.

**URBANFUND CORP.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(In Canadian dollars, except per unit amounts)

|  | Note   | <u>Common equity</u> |               | <u>Preferred equity</u> |               | Retained earnings | Non-controlling interests | Total equity  |
|--|--------|----------------------|---------------|-------------------------|---------------|-------------------|---------------------------|---------------|
|  |        | Number of shares     | Share capital | Number of shares        | Share capital |                   |                           |               |
| Balance, December 31, 2016                           |        | 44,460,794           | \$ 9,975,645  | 7,425,000               | \$ 1,113,750  | \$ 20,839,468     | \$ 1,126,686              | \$ 33,055,549 |
| Changes during the year:                             |        |                      |               |                         |               |                   |                           |               |
| Additional contributions to the limited partnerships |        | -                    | -             | -                       | -             | -                 | 317,092                   | 317,092       |
| Transfers  | 12     | -                    | -             | -                       | -             | 65,759            | (65,759)                  | -             |
| Net income and comprehensive income for the year     |        | -                    | -             | -                       | -             | 7,257,374         | 87,383                    | 7,344,757     |
| Dividends paid                                       | 17, 24 | -                    | -             | -                       | -             | (63,442)          | -                         | (63,442)      |
| Dividends payable                                    | 17     | -                    | -             | -                       | -             | (24,380)          | -                         | (24,380)      |
| Dividend reinvestment plan                           | 17     | 637,346              | 315,680       | -                       | -             | (315,680)         | -                         | -             |
| Balance, December 31, 2017                           |        | 45,098,140           | \$ 10,291,325 | 7,425,000               | \$ 1,113,750  | \$ 27,759,099     | \$ 1,465,402              | \$ 40,629,576 |

|  | Note   | <u>Common equity</u> |               | <u>Preferred equity</u> |               | Retained earnings | Non-controlling interests | Total equity  |
|--|--------|----------------------|---------------|-------------------------|---------------|-------------------|---------------------------|---------------|
|  |        | Number of shares     | Share capital | Number of shares        | Share capital |                   |                           |               |
| Balance, December 31, 2017                       |        | 45,098,140           | \$ 10,291,325 | 7,425,000               | \$ 1,113,750  | \$ 27,759,099     | \$ 1,465,402              | \$ 40,629,576 |
| Changes during the year:                         |        |                      |               |                         |               |                   |                           |               |
| Net income and comprehensive income for the year |        | -                    | -             | -                       | -             | 4,863,216         | (174,507)                 | 4,688,709     |
| Dividends paid                                   | 17, 24 | -                    | -             | -                       | -             | (142,318)         | -                         | (142,318)     |
| Dividends payable                                | 17     | -                    | -             | -                       | -             | (245,829)         | -                         | (245,829)     |
| Dividend reinvestment plan                       | 17     | 744,785              | 481,746       | -                       | -             | (481,746)         | -                         | -             |
| Balance, December 31, 2018                       |        | 45,842,925           | \$ 10,773,071 | 7,425,000               | \$ 1,113,750  | \$ 31,752,422     | \$ 1,290,895              | \$ 44,930,138 |

The accompanying notes are an integral part of the consolidated financial statements.

# URBANFUND CORP.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Canadian dollars)

| Years ended December 31,   | Note | 2018                | 2017                |
|--|------|---------------------|---------------------|
| <b>Operating activities</b>  |      |                     |                     |
| <i>Net income from:</i>  |      |                     |                     |
| Net income and comprehensive income  |      | \$ 4,688,709        | \$ 7,344,757        |
| <i>Items not affecting cash:</i>   |      |                     |                     |
| Income from equity accounted investment                                      | 6    | (233,013)           | (109,417)           |
| Interest income  |      | (117,744)           | (99,415)            |
| Fair value adjustment on marketable securities                               |      | (32,925)            | (118,611)           |
| Fair value adjustment on investment properties                               | 5    | (2,073,414)         | (5,673,753)         |
| Deferred income tax expense  |      | 286,000             | 1,944,000           |
| Net issuance of common shares  |      | (481,746)           | (315,680)           |
| Adjustments for other non-cash working capital items                         | 25   | 2,162,931           | 2,303,603           |
| <b>Cash provided by operating activities</b>                                 |      | <b>4,198,798</b>    | <b>5,275,484</b>    |
| <b>Investing activities</b>  |      |                     |                     |
| Acquisitions of investment properties  | 5    | -                   | (2,100,000)         |
| Acquisitions of inventory properties   | 5, 8 | -                   | (2,350,000)         |
| Construction expenditures to properties under development                    | 5    | (607,993)           | (516,717)           |
| Capital expenditures on income properties                                    | 5    | (1,090,586)         | (186,247)           |
| Proceeds from sale of investment properties and properties under development | 5    | 7,300,000           | -                   |
| Construction expenditures to inventory properties                            | 8    | (623,804)           | (910,415)           |
| Repayment of investment in real estate project                               | 7    | -                   | 1,677,333           |
| Contributions to equity accounted investment                                 | 6    | -                   | (7,569,980)         |
| Distributions from equity accounted investment                               | 6    | 200,000             | -                   |
| <b>Cash provided by (used in) investing activities</b>                       |      | <b>5,177,617</b>    | <b>(11,956,026)</b> |
| <b>Financing activities</b>  |      |                     |                     |
| Proceeds from mortgage financing, net of financing costs                     |      | -                   | 11,693,750          |
| Repayments of mortgage principal   |      | (8,052,019)         | (4,786,939)         |
| Repayment of non-revolving term facility                                     |      | -                   | (461,700)           |
| Dividends paid   | 24   | (142,318)           | (63,442)            |
| Non-controlling interests  |      | -                   | 338,716             |
| <b>Cash provided by (used in) financing activities</b>                       |      | <b>(8,194,337)</b>  | <b>6,720,385</b>    |
| <b>Net change in cash</b>  |      | <b>1,182,078</b>    | <b>39,843</b>       |
| Cash, beginning of year  |      | 8,002,475           | 7,962,632           |
| <b>Cash, end of year</b>   |      | <b>\$ 9,184,553</b> | <b>\$ 8,002,475</b> |
| Supplemental cash flow information   | 24   |                     |                     |

The accompanying notes are an integral part of the consolidated financial statements.

# URBANFUND CORP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(In Canadian dollars, except per unit amounts)

### 1. GENERAL INFORMATION

Urbanfund Corp. and its consolidated subsidiaries (collectively, Urbanfund or the Company) own, develop and operate a real estate portfolio focused on a mix of both residential and commercial properties. Urbanfund also actively focuses on identifying real estate related projects. Urbanfund was incorporated on February 4, 1997, pursuant to the provisions of the Business Corporations Act of Alberta. In 2003, the Company filed articles of continuance, allowing operations to continue under the laws of the Province of Ontario, Canada. The Company's corporate headquarters and registered head office are located at 35 Lesmill Road, Toronto, Ontario, Canada, M3B 2T3.

Urbanfund Corp.'s common shares are listed on the Toronto Venture Exchange (TSX-V) under the ticker symbol UFC.

### 2. BASIS OF PREPARATION

#### (a) Statement of compliance

Urbanfund's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the IFRS Interpretations Committee (IFIRC). These consolidated financial statements of the Company for the years ended December 31, 2018 and 2017 were authorized for issuance by the Board of Directors on April 23, 2019.

#### (b) Basis of presentation

The consolidated financial statements are prepared on a going concern basis using the historical cost method modified to include fair value measurement of investment properties (note 5), marketable securities (note 9) and assets held for sale (note 4), as set out in the relevant accounting policies. The Company presents its consolidated balance sheets based on the liquidity method, whereby all assets and liabilities are presented in increasing order of liquidity. Urbanfund considers this presentation to be more relevant than a classified balance sheet distinguished between current and non-current assets and liabilities. Current assets and liabilities are those expected to be recovered or settled within one year from the reporting period, and non-current assets and liabilities are those where the recovery or settlement is expected to be greater than a year from the reporting period. The accounting policies set out below have been applied consistently in all material respects. Any IFRS not effective for the current accounting year are described in note 3(r).

#### (c) Principles of consolidation

These consolidated financial statements include the accounts of the parent company, Urbanfund, and its subsidiaries, after elimination of intercompany transactions, balances, revenues and expenses.

##### (i) Subsidiaries

Subsidiaries are entities where the Company has control. Control is achieved when Urbanfund is exposed to, or has the rights, to variable returns from its involvement with the investee and the ability to affect those returns through its power over the investee. Power may be determined on the basis of voting rights or in the case of structured entities, other contractual arrangements. The Company reassesses whether or not it controls an investee based on current facts and circumstances. All subsidiaries are consolidated from the date Urbanfund obtains control and continues to be consolidated until the date that such control ceases.

##### (ii) Associates

Associates are entities over which Urbanfund has significant influence but not control or joint control, generally accompanying ownership between 20%-50% of the voting rights, although other factors such as the ability to impact key operating decisions could also indicate significant influence. Investments in associates are accounted for using the equity method. Under the equity method, the investment is initially recorded at cost and adjusted by the Company's share of post-acquisition results of operations and changes in net assets of the associate. The financial statements of Urbanfund's associates are prepared in the same reporting period as the Company, and where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

##### (iii) Non-controlling interests

When Urbanfund does not own all the equity in a consolidated subsidiary, the non-controlling equity interest is presented as a separate component of equity on the consolidated balance sheets. The net income attributable to the non-controlling interests is separately disclosed in the Company's consolidated statements of income and comprehensive income.

# URBANFUND CORP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(In Canadian dollars, except per unit amounts)

### 2. BASIS OF PREPARATION (CONT'D)

#### (c) Principles of consolidation (Cont'd)

##### (iii) Non-controlling interests (Cont'd)

Transactions with non-controlling interests by the Company that do not result in a loss of control are accounted for as equity transactions. A disposal of rights in a subsidiary that does not result in a loss in control, results in an increase or decrease within equity of the difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary, also taking into account any amounts which have been recognized in income and comprehensive income, if any, based on the decrease in the interests in the subsidiary. Transactions costs with respect to non-controlling interests are also recorded in equity.

##### (iv) Joint operations

A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have the rights to the assets and the obligations for the liabilities relating to the arrangement. Urbanfund records only its share of assets, liabilities and share of the results of the joint operation. The assets, liabilities and results of the joint operation are included within the respective line items of the consolidated balance sheets and consolidated statements of income and comprehensive income.

#### (d) Significant judgments

The preparation of the Company's consolidated financial statements in accordance with IFRS requires management to exercise judgment in applying the Company's accounting policies. Judgments made by management in the on-going application of IFRS that have a significant effect on the consolidated financial statements are outlined below:

##### *Investment properties*

Urbanfund's accounting policies relating to its investment properties are described in note 3(c). In applying these policies, judgment is required in determining whether certain costs represent additions to the carrying amount of the property and distinguishing between tenant incentives and capital improvements. The Company's management also applies judgment in determining when property under development qualifies as an income property, which is when fair value can be reliably measured or construction of the property under development is substantially complete (whichever is earlier). Costs capitalized to properties under development include common area maintenance, property taxes and borrowing costs on both specific and general debt.

##### *Leases – Urbanfund as a lessor*

The Company makes judgments in determining whether certain leases, in particular tenant leases, where the Company is the lessor, are either operating or finance leases. The Company has determined, based on the evaluation of the terms and conditions of the lease arrangements, that Urbanfund retains all significant risks and rewards of ownership of the investment properties and accounts for these arrangements as operating leases.

##### *Acquisitions of investment properties*

At the time of acquisition of a property, whether through controlling share investment or directly, the Company considers whether the acquisition represents an acquisition of a business under *IFRS 3, Business Combinations*. This assessment requires management to make judgments on whether the assets acquired and liabilities assumed constitute a business as defined by IFRS 3, and if the integrated set of activities, including inputs and processes acquired, is capable of being conducted and managed as a business and the Company obtains control of the business. The Company has determined that its acquisitions have been accounted for as asset acquisitions, as no integrated set of activities were acquired, the cost is accounted for as a group of assets and liabilities and the transaction costs are allocated to the assets and liabilities acquired based on their relative fair values. No goodwill is recognized for an asset acquisition.

##### *Joint arrangements*

The Company makes judgments in determining whether a joint arrangement structured through a separate vehicle is a joint operation by assessing the legal form of the separate vehicle, including the determination on whether the separate vehicle has independent power, discretion or responsibilities pertaining to the investment properties, and whether Urbanfund retains the right to control and direct the separate vehicle in all matters related to the investment properties.

# URBANFUND CORP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(In Canadian dollars, except per unit amounts)

### 2. BASIS OF PREPARATION (CONT'D)

#### (d) Significant judgments (Cont'd)

##### *Significant influence*

When determining the appropriate basis of accounting for Urbanfund's investees, the management makes judgments about the degree of influence that Urbanfund exerts directly or through an arrangement over the investees' relevant activities. This may include the ability to elect investee directors, appoint management or influence key decisions.

##### *Classification of assets and liabilities as held for sale*

Classification of assets or a disposal group as held for sale requires judgment on whether the carrying amount will be recovered principally through a sale transaction rather than through continuing use and whether the sale is highly probable.

##### *Income taxes*

The Company applies judgment in determining the tax rates applicable to the temporary differences to determine the provision for income taxes. Deferred taxes relate to temporary differences arising from its subsidiaries and are measured using tax rates that are expected to apply in the year when the asset is realized or the liability is settled. Temporary differences are differences between accounting and tax asset values that are expected to be deductible or taxable in the future.

#### (e) Use of estimates and assumptions

The preparation of Urbanfund's consolidated financial statements requires management to make estimates based on events and circumstances that existed at the consolidated balance sheet date. Accordingly, actual results may differ from these estimates. Significant estimates made by management with a significant risk of material adjustment in the current and following years are discussed below:

##### *Investment properties*

Estimates and assumptions used in determining fair value of investment properties include capitalization rates and stabilized net operating income (which is influenced by vacancy rates) used in the direct capitalization income approach. A change to any of these inputs could significantly affect the fair value of an investment property.

##### *Marketable securities*

The Company recognizes marketable securities at fair value. Fair value is determined on the basis of market prices from independent sources. In the determination of fair value, management considers factors such as intentions and ability to hold or dispose of such securities, prevailing market prices and general market conditions.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Changes in accounting policies

##### *IFRS 15, Revenue from Contracts with Customers (IFRS 15)*

The Company adopted IFRS 15 on its effective date of January 1, 2018 using the modified retrospective approach. IFRS 15 replaces IAS 18, *Revenue*. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. The standard requires entities to exercise judgment, taking into consideration all relevant facts and circumstances when applying each step of the model to contracts with customers.

The Company's assessment included a review of the relevant contracts for the following key areas that are in the scope of IFRS 15, common area maintenance recoveries, inventory property sales and parking revenue. Base rent and realty tax and insurance recoveries are accounted for pursuant to IAS 17, *Leases*, and therefore are outside the scope of IFRS 15. The Company has concluded that there are no significant differences in revenue recognition for these revenue streams between the point of transfer of risks and rewards under IAS 18 and the point of transfer of control under IFRS 15. No transitional adjustment has been recorded as at January 1, 2018.

# URBANFUND CORP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(In Canadian dollars, except per unit amounts)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### (a) Changes in accounting policies (Cont'd)

##### *Revenue from Contracts with Customers (IFRS 15) (Cont'd)*

The following accounting policies apply to comparative information for 2018 in our consolidated financial statements, as Urbanfund did not restate prior periods on adoption of IFRS 15.

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received. The following specific recognition criteria must also be met before revenue is recognized:

##### (i) *Rental revenue*

###### Base rent

The Company has not transferred substantially all the risks and benefits of ownership of its investment properties and, therefore, accounts for its leases with tenants as operating leases. Revenue recognition under a lease commences when the tenant has the right to use the leased asset, which is typically when the tenant takes possession of, or controls, the physical use of the leased property, which generally occurs on the lease commencement date.

When Urbanfund is required to make additions to the property in the form of tenant improvements that enhance the value of the property, revenue recognition begins upon substantial completion of such additions. Tenant incentives are recognized as a reduction of rental revenue on a straight-line basis over the term of the lease contract.

###### Realty tax and insurance recoveries

Tenant reimbursements for real estate taxes and insurance incurred by the Company relate specifically to leased property and are unavoidable costs directly related to the leased asset. The Company recognizes realty tax and insurance recoveries as they become due.

###### Common area maintenance recoveries

The Company has obligations pursuant to its lease contracts with tenants to provide common area maintenance (CAM) services in exchange for CAM recoveries, which are considered non-lease components. These CAM services are delivered to tenants during the period which the tenants occupy the premises and as such, CAM recoveries are recognized in revenue over time. The Company receives variable consideration for the CAM recoveries to the extent of costs incurred and revenue is recognized on this basis as this is the best estimate of amounts earned over the period these services are performed. Revenue is constrained by actual costs incurred and any restrictions in the lease contracts. The Company is obligated to continue to provide CAM services over the remainder of the lease contract term and will recognize revenue based on actual cost incurred to fulfill the CAM services.

###### Percentage rent

Percentage rent is typically calculated based on a percentage of tenant sales over a specified threshold, which is in addition to base rent. Percentage rents are recognized once the specified threshold has been achieved in accordance with each tenant lease.

###### Lease cancellation fees

Amounts payable by tenants to terminate their lease prior to the contractual expiry date are included in rental revenue as lease cancellation fees at the effective date of the lease termination.

###### Parking revenue

Parking revenue are fees charged for short-term or transient use of a parking space. Revenue is recognized when the parking space is used and the fee is collected. Parking revenue pursuant to a lease is included in base rent.

# URBANFUND CORP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(In Canadian dollars, except per unit amounts)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### (a) Changes in accounting policies (Cont'd)

##### (ii) *Inventory properties*

Revenue from contracts with customers for inventory property sales is recognized at a point in time when control over the property has been transferred, which is when possession passes to the customer, since the customer then has the ability to direct the use and obtain substantially all the benefits of the property. Revenue is measured at the transaction price agreed to under the contract.

Funds received from the customer prior to the customer taking possession are recognized as deferred revenue (contract liability). Non-refundable sales commissions paid by the Company prior to the customer taking possession are capitalized to the inventory property (contract asset) and expensed when residential inventory revenue is recognized.

Directly attributable selling and disposition costs are expensed as incurred.

##### (iii) *Interest income*

Revenue is recognized as interest accrues using the effective interest method.

##### (iv) *Other income*

Other income includes distributions from investment in real estate project, which is recorded when the Company's right to receive payment has been established, which is generally when the distributions are declared payable.

#### *IFRS 9, Financial Instruments (IFRS 9)*

The Company adopted IFRS 9 on its effective date on January 1, 2018, using the modified retrospective basis with no restatement of comparative periods. IFRS 9 replaces IAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method be used, replacing the multiple impairment methods in IAS 39. IFRS 9 also includes requirements relating to a new hedge accounting model, which represents a substantial overhaul of hedge accounting, which will allow entities to better reflect their risk management activities in the financial statements.

Under IFRS 9, financial assets are classified on the basis of both the business model in which the assets are managed as the contractual cash flow characteristics of the asset. Financial assets after initial recognition are classified and measured either as: (i) amortized cost; (ii) fair value through other comprehensive income (FVOCI) with fair value gains or losses recycled into net income on derecognition; or (iii) fair value through profit and loss (FVTPL). Financial liabilities are classified and measured on two categories: (i) amortized cost; or (ii) FVTPL.

##### (i) *Financial assets*

The Company's financial assets include marketable securities which were previously classified and measured as FVTPL, whereby fair value adjustments were recorded in net income, which is the same under IFRS 9.

##### (ii) *Financial liabilities*

The Company's financial liabilities include mortgages payable and mortgages payable associated with assets held for sale, which were measured at amortized cost using the effective interest method and remain substantially the same under IFRS 9.

No transitional adjustments have been recorded relating to the Company's adoption of IFRS 9 as at January 1, 2018.

#### *IAS 40, Investment Property (IAS 40)*

In December 2016, the IASB issued an amendment to IAS 40 clarifying certain existing requirements. The amendment requires that an asset be transferred to or from investment properties only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of an investment property and there is evidence of the change in use.

# URBANFUND CORP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(In Canadian dollars, except per unit amounts)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### (a) Changes in accounting policies (Cont'd)

##### *IAS 40, Investment Property (IAS 40) (Cont'd)*

In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. These amendments were applied prospectively by Urbanfund on the effective date of January 1, 2018, as there was no change in the classification to any of the Company's investment properties upon the adoption of the amendments.

##### *IFRS 2, Share-Based Payments (IFRS 2)*

In June 2016, the IASB issued final amendments to IFRS 2, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: (i) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Company's accounting policy for share-based payments is consistent with the approach clarified in the amendments, therefore, these amendments do not have any impact on the Company's consolidated financial statements.

#### (b) Fair value measurement

The Company measures certain financial instruments, such as marketable securities, and non-financial assets, such as investment properties, at fair value at each consolidated balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined by incorporating all factors that market participants would consider in setting a price acting in their economic best interests, including commonly accepted valuation approaches.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability that is accessible by Urbanfund.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its "highest and best use" or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole:

- Level 1 - quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

#### (c) Investment properties

Investment properties are held to earn rental revenue or for capital appreciation or both. A key characteristic of an investment property is that it generates cash flows largely independently of the other assets held by the entity.

# URBANFUND CORP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(In Canadian dollars, except per unit amounts)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### (c) Investment properties (Cont'd)

##### (i) *Income properties*

Income properties are initially measured at cost. Subsequent to initial recognition, income properties are recorded at fair value and related gains and losses arising from changes in fair value are recognized in net income in the year of change. The determination of fair value is based on, among other things, rental revenue from current leases and reasonable supportable assumptions that represent what knowledgeable, willing parties would assume about rental revenue from future leases in light of current conditions, less future cash outflows in respect to tenant installation costs, income property operations and capital expenditures.

##### (ii) *Properties under development*

Properties under development include those properties, or components thereof, that will undergo activities that will take a substantial period of time to prepare the properties for their intended use as income properties.

The cost of a development property that is an asset acquisition comprises cash, or the fair value of other consideration, paid to acquire the properties, including transaction costs. Subsequent to the acquisition, the cost of a development property includes costs that are directly attributable to these assets, including development costs, property taxes and borrowing costs on specific debt. Direct borrowing costs, development costs and property taxes are capitalized when the activities necessary to prepare an asset for development or redevelopment begin and continue until the date that construction is substantially complete and all necessary occupancy and related permits have been received.

If Urbanfund is required as a condition of a lease to construct tenant improvements that enhance the value of the property, then capitalization of costs continues until such improvements are completed. Properties under development are measured at cost, when the fair value is not reliably determinable or when development is completed, at which point fair value is reliably determinable.

#### (d) Inventory properties

Inventory properties are assets acquired or developed that Urbanfund has no intention of using for rental income purposes and plans to sell in the ordinary course of business. The Company expects to earn a return on such assets through a combination of property operating income earned during the holding period and sales proceeds. Residential inventory is recorded at the lower of cost, including pre-development expenditures and capitalized borrowing costs, and net realizable value, which Urbanfund determines using the estimated selling price in the ordinary course of business, less estimated selling costs and development costs to complete.

Inventory properties are reviewed for impairment at each reporting date. An impairment loss is recognized in net income when the carrying value of the asset exceeds its net realizable value.

Transfers into inventory properties are based on a change in use evidenced by the commencement of development expenditures with the view to sell, at which point an investment property would be transferred to inventory. Transfers from inventory property to investment property are based on a change in use evidenced by management's commitment to use a property for rental purposes or the commencement of an operating lease to another party.

#### (e) Recognition and measurement of financial instruments

Financial assets include Urbanfund's accounts receivable, within receivables and other assets, cash and cash equivalents, marketable securities and assets held for sale. Financial liabilities include Urbanfund's mortgages payable, liabilities associated with assets held for sale and accounts payable and accrued liabilities.

The Company determines the classification of its financial assets and financial liabilities at initial recognition. The classification of financial instruments depends on the purpose for which they are acquired or incurred. Financial instruments are initially recorded at fair value and, in the case of financial assets or liabilities carried at amortized cost, adjusted for directly attributable transaction costs.

The fair value of a financial instrument is the amount of consideration that could be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. In certain circumstances, however, the initial fair value may be based on other observable current market transactions in the same instrument without modification or on a valuation technique using market-based inputs. The fair value of other assets and accounts payable and certain other liabilities are estimated based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

**URBANFUND CORP.**  
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**3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**(e) Recognition and measurement of financial instruments (Cont'd)**

The fair value of term mortgages are estimated based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

Financial assets and financial liabilities are recognized when the Company becomes party to the contractual provisions of the instrument. Financial assets are no longer recognized when the rights to receive cash flows from the assets have expired or are assigned and all the risks and rewards of ownership have been transferred to a third party. Financial liabilities are no longer recognized when the related obligation expires or is discharged or cancelled.

The following table outlines the financial assets and liabilities, their classification of those values:

| Financial instruments                        | Classification |
|--|----------------|
| <i>Financial assets:</i>                     |                |
| Cash   | Amortized cost |
| Receivables and other assets                 | Amortized cost |
| Marketable securities                        | FVTPL          |
| Investment in private company <sup>(i)</sup> |                |
| Common shares                                | FVTPL          |
| Loan receivable                              | Amortized cost |
| <i>Financial liabilities:</i>                |                |
| Accounts payable and accrued liabilities     | Amortized cost |
| Tenant deposits                              | Amortized cost |
| Mortgages payable                            | Amortized cost |

(i) Included in receivables and other assets

**Financial assets**

The Company's financial assets are classified and measured based on both the business model in which the assets are managed and the contractual cash flow characteristics of the asset. Financial assets subsequent to initial recognition are classified and measured based on three categories: (i) amortized cost; (ii) fair value through other comprehensive income (FVOCI) with fair value gains or losses recycled to net income on derecognition for loans and receivables only; or (iii) fair value through profit and loss (FVTPL).

*(i) Financial assets at amortized cost*

Financial assets are recorded at amortized cost when financial assets held with the objective of collecting contractual cash flows and those cash flows represent solely payments of principal and interest and are not designated as FVTPL. These assets are measured at amortized cost subsequent to initial recognition using the effective interest method. This method uses an effective interest rate that discounts estimated future cash receipts through the expected life of the financial asset or liability to the net carrying amount of the financial asset or liability. The amortized cost is reduced by impairment losses, if any. Interest income and impairment losses are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

*(ii) Financial assets at FVOCI*

These financial assets are measured at fair value subsequent to initial recognition. For debt instruments held with the objective of collecting contractual cash flows and selling financial assets, interest income is calculated using the effective interest method and impairment is recognized in profit or loss. Other net fair value gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss. For equity instruments not held for trading and where an election to present changes in the fair value subsequent to initial recognition of such instruments in other comprehensive income is made, dividends are recognized in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment. Other net fair value gains and losses are recognized in OCI and are never reclassified to profit or loss. Regular way transactions are recorded on a trade date basis. The Company does not have any financial assets classified as FVOCI.

# URBANFUND CORP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### (e) Recognition and measurement of financial instruments (Cont'd)

##### Financial assets (Cont'd)

##### (iii) Financial assets at FVTPL

These financial assets are neither held at amortized cost nor at FVOCI as they are managed and evaluated on a fair value basis. These financial assets are measured at fair value subsequent to initial recognition. Net gains and losses, including any interest or dividend income, are recognized in profit or loss unless they are derivative instruments designated in an effective hedging relationship.

##### Financial liabilities

Financial liabilities are initially measured at fair value and subsequent to initial recognition are classified and measured based on two categories: (i) amortized cost; or (ii) FVTPL.

##### (i) Financial liabilities at amortized cost

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense is recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

##### (ii) Financial liabilities at FVTPL

A financial liability is classified as FVTPL if it is classified as held for trading, it is derivative or designated as FVTPL on initial recognition. Financial liabilities at FVTPL are subsequently measured at fair value and net gains and losses, including any interest expenses, are recognized in profit or loss unless they are derivative instruments designated in an effective hedging relationship.

#### (f) Impairment of financial assets

At each reporting date, each financial asset measured at amortized cost is assessed for impairment under an expected credit loss (ECL) model. The Company applies the simplified approach which uses lifetime ECLs for contractual rents receivable and the general approach for other receivables.

The Company uses an accounts receivable aging provision matrix to measure the ECL for contractual rents receivable and applies losses factors to aging categories greater than 60 days past due.

Other receivables are classified as impaired when there is objective evidence that the full carrying amount of the receivable is not collectible.

#### (g) Income taxes

Urbanfund is subject to tax under *Part I* of the *Income Tax Act of Canada* and is subject to the general rate applicable on Canadian corporations. Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

##### (i) Current income taxes

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in Canada, where Urbanfund and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

# URBANFUND CORP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### (g) Income taxes (Cont'd)

##### (ii) *Deferred income taxes*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax liabilities in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

#### (h) Cash

Cash comprises of cash on hand, unrestricted cash, balances with banks, deposits held in trust and short-term deposits.

#### (i) Levies

Levies are outflows from the Company imposed by a government in accordance with legislation. The Company has assessed property taxes as being within the scope of *IFRIC 21, Levies*, given that property taxes are non-reciprocal charges imposed by a government, in accordance with the legislation and are based on property value. IFRIC 21 conforms that an entity shall recognize an asset if it has a prepaid levy but does not yet have a present obligation to pay that levy. The Company has determined that the liability to pay property taxes is an obligating event over future periods and therefore recognizes a prepaid property tax asset which is then amortized over the year.

#### (j) Provisions

Provisions are recognized when present (legal or constructive) obligations as a result of a past event will lead to a probable outflow of economic resources and amounts can be estimated reliably. Provisions are measured at management's best estimate of the expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation.

The Company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. In those cases where the possible outflow of economic resources as a result of present obligations is considered remote, no liability is recognized.

#### (k) Borrowing costs

Borrowing costs include interest and other costs incurred in connection with borrowing of funds for operations or costs directly attributable to the acquisition. Borrowing costs associated with direct expenditures on investment properties under development and inventory properties are capitalized from the commencement of construction to the date of practical completion. The Company considers practical completion to have occurred when the inventory property or investment property is capable of operating in the manner intended by management, generally, this occurs upon the completion of construction and the receipt of all necessary occupancy and other material permits. Thereafter, borrowing costs are charged to the statement of income and comprehensive income.

#### (l) Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects. Preferred shares are classified as equity if it is non-redeemable or redeemable only at the Company's option and dividends are discretionary. Dividends thereon are recognized as distributions within equity upon approval of the Company's shareholders.

# URBANFUND CORP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(In Canadian dollars, except per unit amounts)

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### (m) Share-based payments

The Company issues share-based awards to certain directors, officers, employees and consultants. The cost of equity-settled share-based transactions with directors, officers and employees is determined as the fair value of the options on the grant date using a fair value model. The cost of equity-settled share-based transactions with consultants is at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case, the cost is determined as the fair value of the options using a fair value model. The value of the stock options is recognized on a proportionate basis consistent with the vesting features of each tranche of the grant.

The cost of cash-settled share-based transactions is measured at the fair value at the grant date, and expensed over the vesting period with the recognition of a corresponding liability. The liability is measured at each reporting date at fair value with changes in fair value recognized in net income.

#### (n) Net income per share

The basic income per common share is calculated by dividing net income by the weighted average number of common shares outstanding during the year. Diluted net income per common share is calculated by dividing the applicable net income by the sum of the weighted average number of common shares outstanding and all additional shares that would have been outstanding if potentially dilutive common shares had been issued during the year. The dilutive effect of preferred shares on net comprehensive income per share is calculated by determining the proceeds for the exercise of such securities which are then assumed to be used to purchase common shares of the Company.

#### (o) Joint arrangements

Urbanfund determines whether a joint arrangement constitutes a joint operation based on the rights and obligations of the parties to the arrangement. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have the rights to the assets, and obligations to the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

#### (p) Non-current assets held for sale

Non-current assets are classified as held-for-sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. The condition is satisfied when the asset is available for immediate sale in its present condition, management is committed to the sale, and it is highly probable to occur within one year. Non-current assets classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell and are presented separately from other assets on the Company's consolidated balance sheets.

#### (q) Foreign currency translation

Foreign currency denominated revenues and expenses are translated using average rates of exchange during the year. Foreign currency denominated monetary assets and liabilities are translated at the rate of exchange in effect at the balance sheet date. The resulting exchange gains and losses are recognized in net income.

#### (r) Future changes in accounting policies

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory at certain future dates. Urbanfund monitors the potential changes proposed by the IASB and analyzes the effect that the changes in standards may have on its operations.

Standards issued but not yet effective up to the date of issuance of these consolidated financial statements are described below. This description is of the standards and interpretations issued that the Company reasonably expects to be applicable at a future date. The Urbanfund intends to adopt these standards when they become effective.

#### *IFRS 16, Leases (IFRS 16)*

In January 2016, the IASB issued IFRS 16. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains substantially unchanged, and the distinction between operating and finance leases is retained.

**URBANFUND CORP.**  
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**3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**(r) Future changes in accounting policies (Cont'd)**

*IFRS 16, Leases (IFRS 16) (Cont'd)*

IFRS 16 is effective for the Company's annual periods beginning on or after January 1, 2019. The Company does not expect a material impact on the classification of its tenant leases on the adoption of this standard.

*IFRIC 23, Uncertainty over Income Tax Treatment (IFRIC 23)*

In June 2017, the IASB issued amendments as a clarification to requirements under IAS 12, *Income Taxes*. IFRIC 23 clarifies the application of various recognition and measurement requirements when there is uncertainty over income tax treatments. This interpretation is effective for annual reporting periods beginning on or after January 1, 2019. The amendments are not expected to have any impact on the Company's consolidated financial statements.

*IASB annual improvements 2015-2017 cycle*

In December 2017, the IASB issued amendments to four standards, IFRS 3, *Business Combinations* (IFRS 3), IFRS 11, *Joint Arrangements* (IFRS 11), IAS 12, *Income Taxes* (IAS 12) and IAS 23 *Borrowing Costs* (IAS 23). These amendments will be effective for annual period beginning on or after January 1, 2019. The implementation of these standards is not expected to have a significant impact on the Company's consolidated financial statements.

**4. ASSETS HELD FOR SALE**

In 2017, Urbanfund completed a partial sale of its 11-13 Edvac Drive inventory property with the remaining properties sold in 2018. In 2017, the Company's proportionate share of the results of assets held for sale are as follows:

| Years ended December 31,                    |    | 2017      |
|---|----|-----------|
| <b>Revenue</b>                              |    |           |
| Rental revenue                              | \$ | 235,898   |
| Rental expenses                             |    | (110,254) |
| <b>Operating income</b>                     |    | 125,644   |
| <b>Other expenses</b>                       |    |           |
| Financing costs                             |    | (4,416)   |
| General and administrative costs            |    | (12,299)  |
| <b>Net income from assets held for sale</b> | \$ | 108,929   |

The Company's net cash flows associated with assets held for sale are as follows:

| Years ended December 31,                                |    | 2017      |
|---|----|-----------|
| Net income from assets available for sale               | \$ | 108,929   |
| Adjustments for net changes in non-cash working capital |    | (95,926)  |
| <b>Cash used in operating activities</b>                |    | 13,003    |
| Construction expenditures to inventory properties       |    | (786,080) |
| <b>Cash used in investing activities</b>                |    | (786,080) |
| <b>Net change in cash</b>                               | \$ | (773,077) |

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**4. ASSETS HELD FOR SALE (CONT'D)**

Presented below are details of the Company's property held for sale:

| As at December 31,                       | Note | 2017                |
|--|------|---------------------|
| <b>Assets</b>                            |      |                     |
| Inventory property                       | 8    | \$ 3,473,551        |
| Receivables and other assets             | 10   | 82,669              |
| <b>Total assets held for sale</b>        |      | <b>\$ 3,556,220</b> |
| <b>Liabilities</b>                       |      |                     |
| Mortgages payable                        | 13   | \$ (1,782,338)      |
| Tenant deposits                          |      | (16,601)            |
| Accounts payable and accrued liabilities |      | (37,713)            |
| <b>Total liabilities held for sale</b>   |      | <b>(1,836,652)</b>  |
| <b>Net assets</b>                        |      | <b>\$ 1,719,568</b> |

**5. INVESTMENT PROPERTIES**

| As at December 31,           | 2018                 | 2017                 |
|------------------------------|----------------------|----------------------|
| Income properties            | \$ 53,433,000        | \$ 56,230,000        |
| Properties under development | 4,466,678            | 5,197,685            |
|                              | <b>\$ 57,899,678</b> | <b>\$ 61,427,685</b> |

|  | Income properties    | Properties under development | Total                |
|--|----------------------|------------------------------|----------------------|
| Balance, January 1, 2018                       | \$ 56,230,000        | \$ 5,197,685                 | \$ 61,427,685        |
| Dispositions                                   | (5,961,000)          | (1,339,000)                  | (7,300,000)          |
| Development expenditures:                      |                      |                              |                      |
| Capitalized costs                              | -                    | 577,524                      | 577,524              |
| Finance costs                                  | -                    | 30,469                       | 30,469               |
| Capital expenditures                           | 1,090,586            | -                            | 1,090,586            |
| Fair value adjustment on investment properties | 2,073,414            | -                            | 2,073,414            |
| Balance, December 31, 2018                     | <b>\$ 53,433,000</b> | <b>\$ 4,466,678</b>          | <b>\$ 57,899,678</b> |

|  | Income properties    | Properties under development | Total                |
|--|----------------------|------------------------------|----------------------|
| Balance, January 1, 2017                       | \$ 50,370,000        | \$ 5,268,439                 | \$ 55,638,439        |
| Acquisitions                                   | -                    | 2,100,000                    | 2,100,000            |
| Development expenditures:                      |                      |                              |                      |
| Capitalized costs                              | -                    | 486,482                      | 486,482              |
| Finance costs                                  | -                    | 30,235                       | 30,235               |
| Capital expenditures                           | 186,247              | -                            | 186,247              |
| Transfers, net <sup>(i)</sup> (note 8)         | -                    | (2,687,471)                  | (2,687,471)          |
| Fair value adjustment on investment properties | 5,673,753            | -                            | 5,673,753            |
| Balance, December 31, 2017                     | <b>\$ 56,230,000</b> | <b>\$ 5,197,685</b>          | <b>\$ 61,427,685</b> |

(i) As at December 31, 2017, Urbanfund's joint operation property, 11-13 Edvac, met the change in use criteria as evidenced by the commitment of management to complete the development with a view to sell. The carrying value of the property was transferred to inventory properties.

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**5. INVESTMENT PROPERTIES (CONT'D)**

**Acquisitions**

The following table summarizes the Company's acquisition of investment properties and inventory properties. The fair value of consideration has been allocated to the identifiable assets acquired based on the fair values as at the date of acquisition, as follows:

|                                 | 4 Alfred Kuehne<br>Brampton, Ontario | 51, 55, 59 Scott St.<br>Kitchener, Ontario |
|---------------------------------|--------------------------------------|--|
| Acquisition date                | November 10, 2017                    | April 10, 2017                             |
| Net assets acquired:            |                                      |  |
| Investment properties           | \$ -                                 | \$ 2,100,000                               |
| Inventory properties (note 8)   | 2,350,000                            | -  |
|                                 | \$ 2,350,000                         | \$ 2,100,000                               |
| Consideration funded by way of: |                                      |  |
| Cash disbursement               | \$ 1,800,000                         | \$ 2,100,000                               |
| Mortgage payable                | 550,000                              | -  |
|                                 | \$ 2,350,000                         | \$ 2,100,000                               |

**Dispositions**

The following tables summarize the Company's disposition of investment properties and properties under development:

| As at December 31,                              | Income properties   |             | Properties under development |             |
|---|---------------------|-------------|------------------------------|-------------|
|   | 2018                | 2017        | 2018                         | 2017        |
| Total consideration                             | \$ 5,961,000        | \$ -        | \$ 1,339,000                 | \$ -        |
| Mortgages associated with property dispositions | (4,568,918)         | -           | -                            | -           |
| <b>Total consideration, net of related debt</b> | <b>\$ 1,392,082</b> | <b>\$ -</b> | <b>\$ 1,339,000</b>          | <b>\$ -</b> |

| Property name and location                                     | Date of disposition | Sale                |                       | Ownership interest of Urbanfund |
|--|---------------------|---------------------|-----------------------|---------------------------------|
|  |                     | proceeds            | Debt                  |                                 |
| 48 Weber Street, Kitchener, Ontario                            | July 13, 2018       | \$ 5,961,000        | \$ (4,568,918)        | 90%                             |
| 61 Roy Street, Kitchener, Ontario                              | July 13, 2018       | 587,000             | -                     | 90%                             |
| 65 Roy Street, Kitchener, Ontario                              | July 13, 2018       | 752,000             | -                     | 90%                             |
| <b>Total dispositions for the year ended December 31, 2018</b> |                     | <b>\$ 7,300,000</b> | <b>\$ (4,568,918)</b> |                                 |

The Company incurred \$426,567 of transaction costs relating to the disposition of 48 Weber Street, 61 Roy Street and 65 Roy Street, Kitchener, which was included in inventory property cost of sales in the consolidated statements of income and comprehensive income.

**Valuation methodology**

*Fair value*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). Expectations about future improvements or modifications to be made to the investment property to reflect its highest and best use may be considered in the valuation. Investment properties are carried at fair value and the Company uses significant unobservable inputs to estimate fair value at each reporting date. Significant unobservable inputs are classified as level 3 inputs under IFRS (see note 20).

Quoted market prices in active markets are the best evidence of fair value and are used as a basis of fair value measurement, when available. When quoted market prices are not available, judgment is required to estimate the fair value based on the best information available, including prices for similar assets and the use of other valuation techniques. These valuation techniques are consistent with the objective of measuring fair value and involve a degree of estimation depending on the availability of market-based information.

*Valuation approach and techniques*

Urbanfund's management team is responsible for determining the fair value of investment properties, including any co-owned properties, at each reporting date.

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**5. INVESTMENT PROPERTIES (CONT'D)**

*Valuation approach and techniques (Cont'd)*

This team consists of individuals who are knowledgeable and have specialized industry experience in real estate valuations. In order to substantiate management's valuation, approximately 18% of the portfolio was appraised by external valuation professionals throughout 2018 (approximately nil% in 2017). The management team, consisting of the senior management of the Company, including the President & Chief Executive Officer, Chief Financial Officer and Controller, estimates the fair value of each income property based on a valuation technique known as the direct capitalization income approach. The fair value is determined by applying a capitalization rate to stabilized net operating income ("SNOI").

- SNOI is based on budgeted rents and expenses and supported by the terms of any existing lease, other contracts or external evidence such as current market rents for similar properties, adjusted to incorporate allowances for estimated vacancy rates and capital expenditures based on current and expected future market conditions after expiry of any current lease and expected maintenance costs.
- The capitalization rate is based on the location and quality of the properties and takes into account market data at the valuation date.

Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and an opposite change in the long-term vacancy rate. Each of these inputs when increased or decreased, in isolation, would not result in a material change in the fair value of the Company's investment properties. As a result, management does not consider these variables as key inputs in estimating the fair value of an investment property.

As at December 31, 2018 and 2017, the capitalization rates used in valuing the commercial and residential properties are set out as follows:

|                        | December 31, 2017 |         |         | December 31, 2018 |              |              |
|------------------------|-------------------|---------|---------|-------------------|--------------|--------------|
|                        | Minimum           | Maximum | Average | Minimum           | Maximum      | Average      |
| Commercial properties  | 5.50%             | 5.50%   | 5.50%   | <b>5.50%</b>      | <b>5.50%</b> | <b>5.50%</b> |
| Residential properties | 3.60%             | 6.50%   | 4.45%   | <b>3.90%</b>      | <b>8.00%</b> | <b>4.41%</b> |

**Sensitivity**

An increase in SNOI would result in an increase to the estimated fair value of properties. The capitalization rates have an inverse relationship between the rate and the fair value, in other words, the lower the capitalization rate, the higher the estimated value. The following table is a sensitivity applied to the proportion of the Company's investment properties measured using the direct capitalization approach and therefore is sensitive to the changes in capitalization rates:

|   | Stabilized<br>NOI -1% | Stabilized NOI<br>as reported | Stabilized<br>NOI +1% |
|---|-----------------------|-------------------------------|-----------------------|
| <b>As at December 31, 2017:</b>             |                       |                               |                       |
| Capitalization rate, decrease, 0.25%        | \$ 1,471,800          | \$ 1,863,600                  | \$ 2,254,400          |
| Capitalization rate, as reported            | (441,200)             | -                             | 301,700               |
| Capitalization rate, increase, 0.25%        | (2,168,700)           | (1,814,200)                   | (1,460,900)           |
| <b>As at December 31, 2018:</b>             |                       |                               |                       |
| <b>Capitalization rate, decrease, 0.25%</b> | <b>\$ 1,346,700</b>   | <b>\$ 1,697,600</b>           | <b>\$ 2,048,700</b>   |
| <b>Capitalization rate, as reported</b>     | <b>(332,300)</b>      | <b>-</b>                      | <b>336,200</b>        |
| <b>Capitalization rate, increase, 0.25%</b> | <b>(1,855,800)</b>    | <b>(1,537,900)</b>            | <b>(1,218,800)</b>    |

**6. EQUITY ACCOUNTED INVESTMENT**

During 2017, the Company acquired an equity method investment. The following details the Company's ownership in the subsidiary:

| As at December 31,              |   | 2018       | 2017 |
|---------------------------------|---|------------|------|
| Equity investee                 | Principal activity                      |            |      |
| Highfield Park Residential Inc. | Owns and operates investment properties | <b>20%</b> | 20%  |

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**6. EQUITY ACCOUNTED INVESTMENT (CONT'D)**

The following table shows the changes in the aggregate carrying value of Urbanfund's equity accounted investment:

| Year ended December 31,    | 2018 |           | 2017 |           |
|----------------------------|------|-----------|------|-----------|
| Balance, beginning of year | \$   | 7,679,397 | \$   | -         |
| Contributions              |      | -         |      | 7,569,980 |
| Distributions              |      | (200,000) |      | -         |
| Share of net income        |      | 233,013   |      | 109,417   |
| Balance, end of year       | \$   | 7,712,410 | \$   | 7,679,397 |

The following tables presents the financial position of Urbanfund's equity accounted investee on a 100% basis:

| As at December 31,                 | 2018 |              | 2017 |              |
|------------------------------------|------|--------------|------|--------------|
| Current assets                     | \$   | 1,263,197    | \$   | 1,568,280    |
| Non-current assets                 |      | 113,580,299  |      | 114,269,590  |
| Current liabilities                |      | (1,259,201)  |      | (1,269,498)  |
| Non-current liabilities            |      | (75,022,244) |      | (76,171,386) |
| Net assets                         |      | 38,562,051   |      | 38,396,986   |
| <b>Equity accounted investment</b> | \$   | 7,712,410    | \$   | 7,679,397    |

| Year ended December 31,                        | 2018 |             | 2017 |             |
|--|------|-------------|------|-------------|
| Revenue  | \$   | 12,525,630  | \$   | 2,820,268   |
| Operating expenses                             |      | (7,082,095) |      | (1,611,679) |
| Interest expense                               |      | (2,869,970) |      | (661,502)   |
| Fair value adjustment on investment properties |      | (1,408,500) |      | -           |
| Net income                                     |      | 1,165,065   |      | 547,087     |
| <b>Income from equity accounted investment</b> | \$   | 233,013     | \$   | 109,417     |

**7. INVESTMENT IN REAL ESTATE PROJECT**

In September 2009, the Company invested in a 10% interest in a private partnership, which in turn, a 33.3% interest in the One Bloor Street East, Toronto, Ontario real estate project (the Project). During 2017, Urbanfund received a return of its remaining capital invested in the project of \$1,677,333 and distributions of profit of \$3,666,667 recognized in the consolidated statements of income and comprehensive income. As at December 31, 2018, Urbanfund received an additional profit distribution of \$800,000.

**8. INVENTORY PROPERTIES**

The following table shows the changes in the aggregate carrying value of Urbanfund's inventory property:

| Year ended December 31,                      | 2018 |             | 2017 |           |
|--|------|-------------|------|-----------|
| Balance, beginning of year                   | \$   | 5,947,886   | \$   | -         |
| Transfers (note 5)                           |      | -           |      | 2,687,471 |
| Acquisition of inventory properties (note 5) |      | -           |      | 2,350,000 |
| Development expenditures                     |      | 623,804     |      | 910,415   |
| Disposition of inventory properties          |      | (3,730,370) |      | -         |
| Balance, end of year                         | \$   | 2,841,320   | \$   | 5,947,886 |
| Inventory property                           |      | 2,841,320   |      | 2,474,335 |
| Inventory property held for sale (note 4)    |      | -           |      | 3,473,551 |
|  | \$   | 2,841,320   | \$   | 5,947,886 |

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**9. MARKETABLE SECURITIES**

The following table summarizes the cost and fair value of Urbanfund's marketable securities:

| As at December 31, |    | <b>2018</b>    |    | 2017    |
|--------------------|----|----------------|----|---------|
| Cost               | \$ | <b>353,427</b> | \$ | 353,427 |
| Fair value         |    | <b>445,060</b> |    | 446,825 |

**10. RECEIVABLES AND OTHER ASSETS**

The following table details Urbanfund's receivables and other assets as at December 31, 2018 and 2017:

| As at December 31,   |    | <b>2018</b>    |    | 2017    |
|--|----|----------------|----|---------|
| Accounts receivable  | \$ | <b>441,137</b> | \$ | 344,596 |
| Investment in private company (2,083,333 common shares) <sup>(i)</sup> |    | <b>250,000</b> |    | 250,000 |
| Amounts receivable (note 19)   |    | <b>128,095</b> |    | 117,008 |
| Prepaid expenses   |    | <b>84,252</b>  |    | 89,257  |
| Deposits   |    | <b>-</b>       |    | 27,188  |
|  | \$ | <b>903,484</b> | \$ | 828,049 |
| Receivables and other assets   |    | <b>903,484</b> |    | 745,380 |
| Receivables and other assets held for sale (note 4)                    |    | <b>-</b>       |    | 82,669  |
|  | \$ | <b>903,484</b> | \$ | 828,049 |

(i) The investment in private company represents 2,083,333 common shares with 1,041,666 detachable warrants. During 2018, the 1,041,666 detachable warrants expired.

**11. JOINT OPERATIONS**

The following table details the Company's ownership interest in the joint arrangements:

| As at December 31,                        |  | <b>2018</b> |  | 2017 |
|---|--|-------------|--|------|
| Joint operation                           | Principal activity                     |             |  |      |
| La Corporation Headway ("Quebec Headway") | Own and operate investment properties  | <b>10%</b>  |  | 10%  |
| Edvac <sup>(i)</sup>                      | Develop and sale of inventory property | <b>50%</b>  |  | 50%  |
| Alfred Kuehne                             | Develop and sale of inventory property | <b>50%</b>  |  | 50%  |

(i) In 2017, Edvac met the held for sale criteria, and therefore has been classified separately on the consolidated balance sheets as if Edvac had met the held for sale criteria from the start of 2017 (note 4).

The following tables present the financial results of Urbanfund's joint operations:

| As at December 31,      | <b>2018</b>    |           |               |               |
|-------------------------|----------------|-----------|---------------|---------------|
|                         | Quebec Headway | Edvac     | Alfred Kuehne | Total         |
| Current assets          | \$ 334,667     | \$ 18,428 | \$ 446,094    | \$ 799,189    |
| Non-current assets      | 11,523,000     | -         | 2,841,320     | 14,364,320    |
| Current liabilities     | (329,087)      | (18,190)  | (1,575,082)   | (1,922,359)   |
| Non-current liabilities | (2,238,877)    | -         | (10,475)      | (2,249,352)   |
| Net assets              | \$ 9,289,703   | \$ 238    | \$ 1,701,857  | \$ 10,991,798 |

| As at December 31,      | <b>2017</b>    |                      |               |              |
|-------------------------|----------------|----------------------|---------------|--------------|
|                         | Quebec Headway | Edvac <sup>(i)</sup> | Alfred Kuehne | Total        |
| Current assets          | \$ 377,304     | -                    | \$ 889,198    | \$ 1,266,502 |
| Non-current assets      | 9,830,000      | -                    | 2,474,335     | 12,304,335   |
| Current liabilities     | (371,084)      | -                    | (79,018)      | (450,102)    |
| Non-current liabilities | (2,486,518)    | -                    | (1,524,742)   | (4,011,260)  |
| Net assets              | \$ 7,349,702   | -                    | \$ 1,759,773  | \$ 9,109,475 |

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**11. JOINT OPERATIONS (CONT'D)**

| Year ended December 31, | 2018           |              |               |              |
|-------------------------|----------------|--------------|---------------|--------------|
|                         | Quebec Headway | Edvac        | Alfred Kuehne | Total        |
| Revenue                 | \$ 1,463,351   | \$ 5,174,192 | \$ 141,522    | \$ 6,779,065 |
| Expenses                | (918,300)      | (3,766,868)  | (85,049)      | (4,770,217)  |
| Fair value gains        | 1,378,730      | -            | -             | 1,378,730    |
| Interest expense        | (84,389)       | (17,306)     | (93,440)      | (195,135)    |
| Net income (loss)       | \$ 1,839,392   | \$ 1,390,018 | \$ (36,967)   | \$ 3,192,443 |

| Year ended December 31, | 2017           |            |               |              |
|-------------------------|----------------|------------|---------------|--------------|
|                         | Quebec Headway | Edvac      | Alfred Kuehne | Total        |
| Revenue                 | \$ 1,457,228   | \$ 235,898 | \$ 16,202     | \$ 1,709,328 |
| Expenses                | (1,156,208)    | (122,553)  | (41,909)      | (1,320,670)  |
| Fair value gains        | 1,485,970      | -          | -             | 1,485,970    |
| Interest expense        | (95,461)       | (4,416)    | (14,520)      | (114,397)    |
| Net income (loss)       | \$ 1,691,529   | \$ 108,929 | \$ (40,227)   | \$ 1,760,231 |

**12. LIMITED PARTNERSHIPS**

The Company entered into limited partnership agreements as the limited partner of Weber Investments LP ("Weber LP"), Weber Investments 2 LP ("Weber 2 LP") and Weber Investments 3 LP ("Weber 3 LP") (collectively, the "Limited Partnerships") to continue its expansion of real estate activities in the Kitchener, Ontario area. Urbanfund has control over the Limited Partnerships, and therefore has consolidated the financial results, reference note 2(c) for further details.

The following tables present the financial results of Urbanfund's Limited Partnerships:

| As at December 31,      | 2018         |              |            |              |
|-------------------------|--------------|--------------|------------|--------------|
|                         | Weber LP     | Weber 2 LP   | Weber 3 LP | Total        |
| Current assets          | \$ 3,286,193 | \$ 175,526   | \$ 49,979  | \$ 3,511,698 |
| Non-current assets      | 931,665      | 2,596,867    | 938,146    | 4,466,678    |
| Current liabilities     | (2,207)      | (736,103)    | (992)      | (739,302)    |
| Non-current liabilities | -            | -            | -          | -            |
| Net assets              | \$ 4,215,651 | \$ 2,036,290 | \$ 987,133 | \$ 7,239,074 |

| As at December 31,      | 2017         |              |              |              |
|-------------------------|--------------|--------------|--------------|--------------|
|                         | Weber LP     | Weber 2 LP   | Weber 3 LP   | Total        |
| Current assets          | \$ 1,426,350 | \$ 120,849   | \$ 100,009   | \$ 1,647,208 |
| Non-current assets      | 8,788,001    | 2,062,614    | 1,647,069    | 12,497,684   |
| Current liabilities     | (263,633)    | (606,289)    | (241,193)    | (1,111,115)  |
| Non-current liabilities | (4,496,188)  | -            | -            | (4,496,188)  |
| Net assets              | \$ 5,454,530 | \$ 1,577,174 | \$ 1,505,885 | \$ 8,537,589 |

| Year ended December 31,   | 2018           |                           |                           |                |
|---------------------------|----------------|---------------------------|---------------------------|----------------|
|                           | Weber LP       | Weber 2 LP <sup>(i)</sup> | Weber 3 LP <sup>(i)</sup> | Total          |
| Revenue                   | \$ 265,164     | \$ -                      | \$ -                      | \$ 265,164     |
| Expenses                  | (599,815)      | -                         | -                         | (599,815)      |
| Fair value loss           | (1,339,446)    | -                         | -                         | (1,339,446)    |
| Interest expense          | (70,974)       | -                         | -                         | (70,974)       |
| Net loss                  | \$ (1,745,071) | \$ -                      | \$ -                      | \$ (1,745,071) |
| Attributable to:          |                |                           |                           |                |
| Shareholders              | \$ (1,570,564) | \$ -                      | \$ -                      | \$ (1,570,564) |
| Non-controlling interests | (174,507)      | -                         | -                         | (174,507)      |
|                           | \$ (1,745,071) | \$ -                      | \$ -                      | \$ (1,745,071) |

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**12. LIMITED PARTNERSHIPS (CONT'D)**

| Year ended December 31,   | 2017              |                           |                           |                   |
|---------------------------|-------------------|---------------------------|---------------------------|-------------------|
|                           | Weber LP          | Weber 2 LP <sup>(i)</sup> | Weber 3 LP <sup>(i)</sup> | Total             |
| Revenue                   | \$ 433,338        | \$ -                      | \$ -                      | \$ 433,338        |
| Expenses                  | (241,898)         | -                         | -                         | (241,898)         |
| Fair value gains          | 820,973           | -                         | -                         | 820,973           |
| Interest expense          | (138,580)         | -                         | -                         | (138,580)         |
| <b>Net income</b>         | <b>\$ 873,833</b> | <b>\$ -</b>               | <b>\$ -</b>               | <b>\$ 873,833</b> |
| Attributable to:          |                   |                           |                           |                   |
| Shareholders              | \$ 786,450        | \$ -                      | \$ -                      | \$ 786,450        |
| Non-controlling interests | 87,383            | -                         | -                         | 87,383            |
|                           | <b>\$ 873,833</b> | <b>\$ -</b>               | <b>\$ -</b>               | <b>\$ 873,833</b> |

(i) For the year ended December 31, 2018, Weber 2 LP and Weber 3 LP incurred \$513,939 and \$23,180 of direct development costs (2017 - \$209,334 and \$145,155) and \$20,314 and \$nil of borrowing costs (2017 - \$40,083 and \$8,204), which are attributable to the properties under development. No revenues or expenses have been recognized relating to Weber 2 LP and Weber 3 LP in the consolidated statements of income and comprehensive income.

On August 1, 2017, Urbanfund commenced proceedings to place one of its limited partners (the "Limited Partner") into default under the terms of the limited partnership agreements. On August 4, 2017, the Limited Partner's units were purchased by Urbanfund for cancellation in accordance with the limited partnership agreements and the Limited Partner's equity interest of \$65,759 was transferred to Urbanfund.

Distributions by the Limited Partnerships are allocated to the limited partner who has contributed capital in excess of their pro-rata share such that each limited partner achieves an annualized internal rate of return of 6% on their excess contribution. Thereafter, the Limited Partnerships' distributions will be 90% to Urbanfund and 10% to the non-controlling interests. An officer of Urbanfund is also an officer of the general partners.

**13. MORTGAGES PAYABLE**

| As at December 31, | 2018                 | 2017                 |
|--------------------|----------------------|----------------------|
| Current            | \$ 2,622,641         | \$ 7,255,927         |
| Non-current        | 25,616,204           | 29,055,011           |
|                    | <b>\$ 28,238,845</b> | <b>\$ 36,310,938</b> |

| As at December 31,   | 2018                 | 2017                 |
|--|----------------------|----------------------|
| Mortgages payable  | \$ 28,238,845        | \$ 34,528,600        |
| Mortgages payable on inventory property held for sale (note 4) | -                    | 1,782,338            |
|  | <b>\$ 28,238,845</b> | <b>\$ 36,310,938</b> |

Mortgages payable are secured by investment properties and bear interest at various fixed rates with payment terms either monthly blended principal and interest payments ("MBPI") or interest only ("IO").

| As at December 31,                  | 2018          |               |               |                      | 2017                 |
|-------------------------------------|---------------|---------------|---------------|----------------------|----------------------|
| Property name(s)                    | Payment Terms | Maturity Date | Interest Rate |                      |                      |
| 3080-3094 Don Mills & 200 Van Horne | MBPI          | Mar 1, 2025   | 2.52%         | \$ 10,924,424        | \$ 11,307,263        |
| 305 North Front Centre              | MBPI          | Oct 5, 2022   | 3.95%         | 9,864,476            | 10,110,164           |
| 476-480 Wonderland Road             | MBPI          | Jun 5, 2023   | 4.35%         | 1,161,334            | 1,218,683            |
| Quebec Headway, Vendor Take Back    | MBPI          | May 1, 2023   | 4.50%         | 2,470,675            | 2,590,235            |
| Quebec Headway, Assumed Mortgages   | MBPI          | (i)           | (i)           | 2,490,930            | 2,762,580            |
| 48 Weber Street & 65 Roy Street     | MBPI          | (ii)          | 2.92%         | -                    | 4,644,841            |
| 59 Weber Street                     | IO            | (iii)         | 6.50%         | -                    | 625,000              |
| 11-13 Edvac Drive                   | IO            | (iv)          | 6.00%         | -                    | 1,782,338            |
| 4 Alfred Kuhne Boulevard            | IO            | Dec 1, 2019   | 5.50%         | 1,543,750            | 1,543,750            |
| <b>Mortgages payable</b>            |               |               |               | <b>\$ 28,455,589</b> | <b>\$ 36,584,854</b> |

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**13. MORTGAGES PAYABLE (CONT'D)**

- (i) Quebec Headway assumed mortgages payable are made up of 10 mortgages outstanding on the income properties of Quebec Headway. The weighted average remaining life is 4.74 years (2017 - 6.45 years) and bear a weighted average interest rate of 3.22% (2017 - 3.26%).
- (ii) During the year ended December 31, 2018, and subsequent to the sale of 48 Weber Street and 65 Roy Street, the mortgage payable of \$4,568,918 was extinguished. Mortgage breaking costs of \$157,227 were included in transaction costs in fair value adjustment on investment properties in the consolidated statements of income and comprehensive income.
- (iii) During the year ended December 31, 2018, the mortgage payable related to 59 Weber Street matured and was repaid in full.
- (iv) During the year ended December 31, 2018, and subsequent to the sale of 11-13 Edvac inventory property (note 4, 8), the mortgage payable of \$1,782,338 was repaid in full.

Minimum principal payments over the following years are as follows:

|                                      |    |            |
|--------------------------------------|----|------------|
| 2019                                 | \$ | 2,622,641  |
| 2020                                 |    | 1,112,499  |
| 2021                                 |    | 1,038,614  |
| 2022                                 |    | 9,801,303  |
| 2023                                 |    | 3,388,479  |
| Thereafter                           |    | 10,492,053 |
|                                      |    | 28,455,589 |
| Unamortized mortgage financing costs |    | (216,744)  |
|                                      | \$ | 28,238,845 |

**14. INCOME TAXES**

**Income tax expense**

The following table reconciles the income taxes calculated at the combined Canadian federal and provincial tax rates with the income tax expense as recognized in the consolidated statements of income and comprehensive income.

| Year ended December 31,                                  | <b>2018</b> |           | <b>2017</b> |            |
|--|-------------|-----------|-------------|------------|
| Income before income taxes                               | \$          | 5,462,709 | \$          | 10,844,757 |
| Statutory rate   |             | 26.7%     |             | 26.7%      |
| Expected income tax expense                              |             | 1,458,543 |             | 2,895,550  |
| <i>Increase (decrease) in income tax expense due to:</i> |             |           |             |            |
| Investment properties                                    |             | (408,709) |             | 83,111     |
| Profit related to investment in real estate project      |             | (143,504) |             | 529,580    |
| Income from investment in subsidiary                     |             | (62,214)  |             | (29,214)   |
| Non-controlling interests                                |             | (46,593)  |             | (1,875)    |
| Other  |             | (14,778)  |             | (483)      |
| Marketable securities                                    |             | (9,058)   |             | 23,331     |
| Non-deductible items                                     |             | 313       |             | -          |
| Total income tax expense                                 | \$          | 774,000   | \$          | 3,500,000  |

**Deferred income taxes**

The temporary differences that give rise to deferred income tax assets and liabilities are presented below:

| As at December 31,            | <b>2018</b> |             | <b>2017</b> |             |
|-------------------------------|-------------|-------------|-------------|-------------|
| Investment properties         | \$          | (5,155,000) | \$          | (4,879,000) |
| Deferred financing costs      |             | (28,000)    |             | (19,000)    |
| Marketable securities         |             | (13,000)    |             | (12,000)    |
| Deferred tax liabilities, net | \$          | (5,196,000) | \$          | (4,910,000) |

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**15. EQUITY**

**Authorized**

|            |   |
|------------|---|
| 20,000,000 | First preferred, Series A shares, non-voting, non-participating, each share is convertible to one common share for no additional consideration unless, at the date of conversion, the aggregate number of common shares held by the directors and officers of Urbanfund, and related parties to such individuals, would exceed 80% of the issued and outstanding common shares, in which case the shares cannot be converted. |
| Unlimited  | First preferred shares, issuable in series with rights, privileges, restrictions and conditions determined by the directors and officers of Urbanfund at the time of issuance.  |
| Unlimited  | Second preferred shares, issuable in series with rights, privileges, restrictions and conditions determined by the directors and officers of Urbanfund at the time of issuance.   |
| Unlimited  | Common shares.  |

**Basic and diluted income per share**

Basic and diluted income per share has been calculated as follows:

| Year ended December 31,                            | <b>2018</b> |                   | 2017                |
|--|-------------|-------------------|---------------------|
| <b>Net income attributable to shareholders</b>     | <b>\$</b>   | <b>4,863,216</b>  | <b>\$</b> 7,257,374 |
| Weighted average common units outstanding:         |             |                   |                     |
| Basic  |             | <b>45,510,235</b> | 44,804,477          |
| Dilutive effect of preferred shares                |             | <b>7,425,000</b>  | 7,425,000           |
| <b>Diluted</b>                                     |             | <b>52,935,235</b> | 52,229,477          |
| Net income per share attributable to shareholders: |             |                   |                     |
| Basic income per share                             | <b>\$</b>   | <b>0.11</b>       | <b>\$</b> 0.16      |
| Diluted income per share                           | <b>\$</b>   | <b>0.09</b>       | <b>\$</b> 0.14      |

**16. STOCK OPTIONS**

The Company has established a stock option plan for the benefit of its employees, directors, officers and consultants. The maximum number of options that may be granted under the plan cannot exceed 10% of the number of issued and outstanding common shares. Options granted under the stock option plan have a maximum of five years and vest over three years from the grant date. The exercise price of the options is determined by the Board of Directors and must not be less than the closing price of Urbanfund's common shares on the TSX Venture exchange on the last trading day prior to the date of the grant. As at December 31, 2018 and 2017, there were no stock options issued, outstanding or exercised.

**17. DIVIDENDS PAID AND DIVIDEND REINVESTMENT PLAN**

On June 17, 2015, Urbanfund adopted a dividend policy (the "Dividend Policy") and implemented a dividend reinvestment plan for the holders of common shares and Series A preferred shares (collectively, the "DRIP"). The DRIP is a voluntary program permitting holders of Series A, first preferred shares and common shares to automatically and without charge, reinvest dividends into additional common shares at a specified discount to the volume-weighted average market price calculated as the date of payment.

On June 18, 2018, Urbanfund amended its Dividend Policy to increase the annual dividend rate to \$0.02 per common share and \$0.02 per Series A preferred share, or 100% increase from the previous year, payable quarterly in the amount of \$0.005 per common share and Series A preferred share.

For the year ended December 31, 2018, Urbanfund issued 744,785 common shares valued at \$481,746 to participants enrolled in the DRIP (2017 - 637,346 and \$315,680).

For the year ended December 31, 2018, total dividends paid during the year was \$142,318 (2017 - \$63,442). As at December 31, 2018, dividends payable was \$245,829 (2017 - \$24,380).

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**18. REVENUE**

**Rental revenue**

| Year ended December 31,             | 2018      |                  | 2017      |                  |
|-------------------------------------|-----------|------------------|-----------|------------------|
| Base rent                           | \$        | 4,494,427        | \$        | 4,691,131        |
| Realty tax and insurance recoveries |           | 428,138          |           | 418,114          |
| Common area maintenance recoveries  |           | 326,983          |           | 230,449          |
| Percentage rent                     |           | 40,988           |           | 52,113           |
| Miscellaneous revenue               |           | 29,615           |           | 114,463          |
| <b>Rental revenue</b>               | <b>\$</b> | <b>5,320,151</b> | <b>\$</b> | <b>5,506,270</b> |

Future minimum rent payments receivable under non-cancellable operating leases are as follows:

| As at December 31,   | 2018      |                  |
|----------------------|-----------|------------------|
| Less than 12 months  | \$        | 3,380,035        |
| 2 to 3 years         |           | 2,032,614        |
| Greater than 3 years |           | 1,922,791        |
|                      | <b>\$</b> | <b>7,335,440</b> |

**Revenue from contracts with customers**

Revenue from contracts with customers include inventory property sales, and common area maintenance recoveries and parking revenue that are included in rental revenue:

| Year ended December 31,                      | 2018      |                  |
|--|-----------|------------------|
| Inventory property sales                     | \$        | 5,138,363        |
| Common area maintenance recoveries           |           | 326,983          |
| Parking revenue                              |           | 35,926           |
| <b>Revenue with contracts with customers</b> | <b>\$</b> | <b>5,501,272</b> |

The revenue from contracts with customers are recognized either at a point in time or over time, as indicated by the following table:

| Year ended December 31, 2018                 | Total               | Timing of recognition |                   |
|--|---------------------|-----------------------|-------------------|
|  |                     | At a point in time    | Over time         |
| Inventory property sales                     | \$ 5,138,363        | \$ 5,138,363          | \$ -              |
| Common area maintenance recoveries           | 326,983             | -                     | 326,983           |
| Parking revenue                              | 35,926              | -                     | 35,926            |
| <b>Revenue with contracts from customers</b> | <b>\$ 5,501,272</b> | <b>\$ 5,138,363</b>   | <b>\$ 362,909</b> |

**Inventory property sales**

The following table identifies estimated revenue from inventory property sales to be recognized in future periods at the point in time when purchasers take possession of their respective units based on condominiums pre-sold as of December 31, 2018:

| As at December 31,  | 2018      |                  |
|---------------------|-----------|------------------|
| Less than 12 months | \$        | -                |
| Greater than 1 year |           | 2,172,500        |
|                     | <b>\$</b> | <b>2,172,500</b> |

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**19. RELATED PARTY BALANCES AND TRANSACTIONS**

Included in amounts receivable within receivables and other assets (note 10) is \$128,095 (2017 - \$117,008) of amounts due from a corporation that is also a shareholder of the Company.

Urbanfund is also contracted to this shareholder for property management fees and cost reimbursements, as follows:

|   | <b>2018</b> | <b>2017</b> |
|---|-------------|-------------|
| <i>Property management fees, included in:</i>       |             |             |
| Rental expenses                                     | \$ 124,150  | \$ 102,358  |
| Income from equity accounted investment, net        | 86,236      | 18,589      |
| Accounts payable and accrued liabilities            | 24,941      | 25,727      |
| <i>Management cost reimbursements, included in:</i> |             |             |
| Rental expenses                                     | \$ 365,175  | \$ 232,392  |
| Income from equity accounted investment, net        | 211,497     | 54,611      |
| Accounts payable and accrued liabilities            | 23,859      | 21,404      |

The marketable securities held by Urbanfund are held with a brokerage that is related by common shareholders who are also directors of the Company. At December 31, 2018, there was \$404,687 (2017 - \$369,429) in cash held by the brokerage, in addition to the marketable securities disclosed in note 9.

There has been no compensation paid to key management personnel during the years ended December 31, 2018 and 2017.

**20. FAIR VALUE MEASUREMENT**

The fair value hierarchy of assets and liabilities measured at fair value on a recurring basis in the consolidated balance sheets are as follows:

| As at December 31,                  | 2018       |         |               | 2017       |         |               |
|-------------------------------------|------------|---------|---------------|------------|---------|---------------|
|                                     | Level 1    | Level 2 | Level 3       | Level 1    | Level 2 | Level 3       |
| Marketable securities               | \$ 445,060 | \$ -    | \$ -          | \$ 446,825 | \$ -    | \$ -          |
| Income properties (note 5)          | -          | -       | 53,433,000    | -          | -       | 56,230,000    |
| Total assets measured at fair value | \$ 445,060 | \$ -    | \$ 53,433,000 | \$ 446,825 | \$ -    | \$ 56,230,000 |

For assets measured at fair value as at December 31, 2018 and 2017, there were no transfers between Level 1, Level 2 and Level 3.

*Receivables and other assets, tenant deposits, accounts payable and accrued liabilities*

The carrying value of receivables and other assets, tenant deposits, accounts payable and accrued liabilities are considered to be representative of their fair values due to their short-term nature.

*Investment in private company*

The investment in private company included in receivables and other assets (note 10) is recorded at carrying value, as it approximates fair value.

reasonably determinable, as there is no active market for the investment and is therefore recorded at amortized cost.

*Mortgages payable*

The fair value of the mortgages payable is Level 2 and approximate \$27,000,000 (2017 - \$34,000,000), based on the interest rates obtainable for similar financial instruments in the current market place.

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**21. RISK MANAGEMENT**

**Financial risk management objectives and policies**

The Company's activity exposes it to a variety of financial risks, including interest rate risk, credit risk and liquidity risk. These financial risks are managed by the Company under policies approved by the Board of Directors. The principal financial risks are actively managed by the Company's finance department, within Board approved policies and guidelines. On an ongoing basis, the finance department actively monitors market conditions with a view to minimizing the exposure of the Company to changing market factors, while at the same time limiting the funding costs of the Company.

**Interest rate risk**

Urbanfund is exposed to interest rate risks on its borrowings and could be adversely affected if it were unable to obtain cost-effective financing. The Company's debt is financed at fixed rates with maturities staggered over a number of years, thereby mitigating its exposure to changes in interest rates and financing risks. A change in the interest rate by 1% would result in an increase or decrease in the fair value of mortgages by \$475,941 (2017 - \$898,729).

**Credit risk**

Credit risk arises from the possibility that Urbanfund's tenants may experience financial difficulty and be unable to fulfil their lease commitments. The Company uses an accounts receivable aging provision matrix to measure the ECLs for contractual rents receivable and the general approach for other receivables. The Company mitigates this risk of credit loss by diversifying its tenant mix and by limiting its exposure to any one tenant. In addition, the Company obtains security deposits from tenants. The Company mitigates its exposure to credit loss by placing its cash and short-term investments with major financial institutions.

**Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulties in meeting its financial liability obligations as they become due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis.

Since inception, the Company has financed its cash requirements primarily through issuances of securities, short-term borrowings and issuances of long-term debt. The Company controls liquidity risk through management of working capital, cash flows and the availability and sourcing of financing. Financial liabilities are due as follows:

|  | < 1 year   | 1-2 years | 3-5 years  | >5 years   |
|--|------------|-----------|------------|------------|
| Accounts payable and accrued liabilities | \$ 745,087 | \$ -      | \$ -       | \$ -       |
| Mortgages payable                        | 2,622,641  | 1,112,499 | 14,228,396 | 10,492,053 |

**22. CAPITAL MANAGEMENT**

Urbanfund defines capital as its equity. The Company's objective when managing capital is: (i) to safeguard the ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits to other stakeholders; and (ii) to provide adequate return to shareholders by obtaining an appropriate amount of debt commensurate with the level of risk, to reduce after-tax cost of capital.

The Company sets the amount of capital in proportion to the risk. Urbanfund manages capital structure and makes adjustments in light of changes in economic conditions and the characteristic risk of underlying assets. In order to maintain or adjust capital structure, the Company may repurchase shares, return capital to shareholders, issue new shares or sell assets to reduce debt. Urbanfund's objective is met by retaining adequate liquidity to provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. There have been no changes to the Company's capital management policies during the years ended December 31, 2018 and 2017.

**23. SEGMENTED INFORMATION**

Urbanfund, primarily owns, develops, manages and operates residential and commercial sector properties in Canada. In measuring its performance of its residential and commercial properties, the Company does not distinguish or group its operations on a geographical or any other basis and, accordingly has a single reportable operating segment. Management has applied judgment by aggregating its

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**23. SEGMENTED INFORMATION (CONT'D)**

operating segments into one single reportable segment for disclosure purposes. Such judgment considers the nature of property operations, tenant mix and an expectation that operating segments within a reportable segment have similar long-term economic characteristics. The Company's Chief Executive Officer is the chief operating decision maker and regularly reviews Urbanfund's operations and performance on a consolidated basis. Urbanfund does not have any single major tenant or any significant groups of tenants.

**24. SUPPLEMENTAL CASH FLOW INFORMATION**

| Year ended December 31,  | 2018         | 2017        |
|--|--------------|-------------|
| Interest received  | \$ 117,744   | \$ 84,505   |
| Interest paid  | (1,076,803)  | (775,433)   |
| Dividends paid:  |              |             |
| Dividends declared during the year                             | \$ (175,036) | (75,340)    |
| Dividends declared in the prior year, paid in the current year | (24,380)     | (12,482)    |
| Dividends declared in the current year, paid in next year      | 57,098       | 24,380      |
| Dividends paid   | \$ (142,318) | \$ (63,442) |

The following provides a reconciliation of liabilities arising from financing activities:

| Year ended December 31, 2018 | Mortgages payable |
|------------------------------|-------------------|
| Balance, beginning of year   | \$ 36,584,854     |
| Cash flows                   | (8,052,019)       |
| Non-cash changes:            |                   |
| Deferred financing costs     | (77,246)          |
| Balance, end of year         | \$ 28,455,589     |

**25. ADJUSTMENTS FOR OTHER NON-CASH WORKING CAPITAL ITEMS**

| Year ended December 31,                   | 2018         | 2017         |
|---|--------------|--------------|
| Receivables and other assets              | \$ (75,435)  | \$ 338,242   |
| Inventory properties                      | 3,730,370    | -            |
| Accounts payable and accrued liabilities  | 18,083       | 38,391       |
| Income taxes                              | (1,829,435)  | 1,556,000    |
| Tenant deposits                           | (48,929)     | (5,419)      |
| Deferred financing costs and other        | 368,277      | 376,389      |
| Net change in other working capital items | \$ 2,162,931 | \$ 2,303,603 |

**26. CONTINGENCIES AND COMMITMENTS**

The Company may have various other contractual obligations in the normal course of operations. The Company is not contingently liable with respect to litigation, claims and environmental matters, including those that could result in mandatory damages or other relief. Any expected settlement of claims in excess of amounts recorded will be charged to the consolidated statements of income and comprehensive income as and when such determination is made.

**27. EVENTS AFTER THE BALANCE SHEET DATE**

On January 22, 2019, the general partners from Weber LP and Weber 3 LP issued a return of capital from the sale of 48 Weber Street, 61 Roy Street and 65 Roy Street of \$2,256,982. Urbanfund anticipates a further distribution, however, the precise timing and quantum of this future distribution is uncertain and will be in the discretion of the general partners.